

DECISION-MAKER:	CABINET		
SUBJECT:	*ENERGY COMPANY OBLIGATION - DELIVERY PARTNER PROCUREMENT		
DATE OF DECISION:	AUGUST 2013		
REPORT OF:	CABINET MEMBER FOR HOUSING AND SUSTAINABILITY		
<u>CONTACT DETAILS</u>			
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STATEMENT OF CONFIDENTIALITY
None

BRIEF SUMMARY

To seek approval to enter into a contract with a strategic delivery partner following completion of a competitive OJEU procedure for Energy Company Obligation (ECO) funded energy and energy efficiency measures on public sector housing and other properties.

The contract with a strategic delivery partner, led by the Council on behalf of a number of local authorities, aims to support the key outcomes of reducing fuel poverty, reducing the city's carbon footprint, the creation of new jobs and building an effective skills base, as well as supporting economic growth in the Solent sub-region.

RECOMMENDATIONS:

- (i) To delegate authority to the Director of People after consultation with the Cabinet Member for Housing and Sustainability to let the ECO contract in early November 2013;.
- (ii) To delegate authority to the Head of Legal, HR and Democratic Services to enter into a contract for a period of 2 years plus an optional further 5 years, subject to the availability of further ECO funding and satisfactory performance, with the company selected for the ECO partnership contract;.
- (iii) To delegate authority to the Head of Legal, HR and Democratic Services, following consultation with the Director of People and the Cabinet Member for Housing and Sustainability to finalise and enter into all necessary or ancillary contractual arrangements and documentation with the preferred bidder, subject to the parameters, set out within the report and specifically in Appendix 1; and

- (iv) To delegate authority to the Head of Legal, HR and Democratic Services to take any further action necessary to give effect to the decisions of the Cabinet in relation to this matter..

REASONS FOR REPORT RECOMMENDATIONS

1. Delegated officer approval was obtained in April 2013 to advertise the ECO contract through the OJEU procurement process. A Negotiated OJEU tender is being used for this purpose which will lead to the appointment of a preferred contractor, or Delivery Partner, in late October of this year.
2. The OJEU tender process is very prescriptive and Council officers are currently negotiating with a shortlist of bidders to determine the most suitable Delivery Partner for the scheme.
3. Cabinet approval is required to let a contract of this size. However, delegated authority is sought to appoint a preferred Delivery Partner as soon as possible after the end of the procurement process, being satisfied that whichever organisation is selected will deliver the strategic outcomes specified for the project.
4. Final Tenders will be received from the three remaining bidders in September. A contractor will be appointed as Preferred Bidder in the beginning of November 2013. This matter requires a decision that would be impracticable to defer until the following Cabinet meeting in November. Letting the contract as early as possible will maximise the current phase of ECO funding (to the end of March 2105).

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

5. . Not to enter into a partnership arrangement with a utility or national construction company was rejected as this is a significant funding opportunity for the Council and its other local authority partners. This delivery model was chosen as a way of ensuring the effective management and coordination of such a large and complex delivery programme and to meet key strategic objectives.

DETAIL (Including consultation carried out)

6. Southampton City Council is seeking to secure Energy Company Obligation (ECO) funding on behalf of a group of local authorities in the Solent region. It is estimated that up to £50 million ECO funding could be spent within the Solent sub-region over the next 2 – 3 years.
7. ECO funding is available for an initial period up to the end of March 2015. Discussions with Utilities and DECC have indicated that further energy company obligation funding is likely to be made available up to 2020.
8. A number of local authorities with a retained housing stock along with Southampton City Council have confirmed an interest in taking part in the Scheme. Further, the arrangement is structured in such a way as to make it possible for other public sector bodies to participate and take advantage of the arrangement which the Council is seeking to establish.
9. There are a number of advantages of taking a collaborative approach with the direct or indirect involvement of a utility funding partner:

- A large scale ECO partnership would attract interest from a utility to meet a substantial portion of its overall funding obligation through a long term arrangement for this purpose.
 - The collaborative working arrangements will provide an impetus and build capacity to enable the further development of other joint projects and initiatives through the partnership.
 - A large ECO partnership should have the scale to influence industry and Government.
10. ECO funding managed and coordinated on a large scale has the potential to transform significant numbers of communities where people on low incomes are experiencing fuel poverty and are faced with ever increasing fuel bills. DECC estimates annual fuel bill reductions per household in the range of £150 to £250 following ECO-funded measures. DECC estimates that ECO carbon targets for the whole UK programme will total 27.8 million tonnes of CO2 between January 2013 and March 2015.
 11. As well as improving the energy efficiency of people's homes and providing bill savings the ECO partnership will have a sufficient scale to contribute to business growth, job and apprenticeship creation, safeguarding existing jobs, and developing an appropriate skills base to ensure local people, particularly those from target communities, are best placed to take advantage of the significant employment opportunities. Research from previous utility funded energy schemes estimates that a contract value of £50m, with around 21,000 properties treated, could lead to the creation of 590 to 760 new jobs with an additional 300 jobs safeguarded.
 12. By Southampton leading on this partnership we can ensure a significant benefit in the local employment and skills market to support small and medium size local firms, investment in the local supply chain and skills development through the local colleges. This will place Southampton at the heart of the growth of the regional green economy and bring new employment and skills to the city and the wider region.
 13. The capacity developed by the ECO funding partnership also generates the required scale to deliver energy measures for the able-to-pay residents in privately owned properties making use of ECO funding and the Green Deal.
 14. The size and scale of this undertaking requires a large utility or national contractor with sufficient capacity to meet the required outcomes. The preferred contractor will be expected to provide ongoing support and development for ECO whilst supporting other energy related opportunities such as district energy and individual ECO/Green Deal schemes throughout the term of the contract. This opportunity presents the Council with a significant opportunity to attract a partner or series of partners to maximise the investment in the City and become the sub-regional basis of a new business.
 15. Further details of the ECO funding arrangements and the benefits to the Council can be found in the officer delegated powers report dated 13 April 2013 from the following link:
<http://www.southampton.gov.uk/modernGov/ieListDocuments.aspx?CId=244&MId=2699&Ver=4>

OJEU Tender Process

16. The nature of the ECO opportunity involves capturing significant external funding but it also requires significant investment by the Council to improve the housing stock. Due to the size of the payments which the Council may make under the contract with the Delivery Partner the Council is required to follow an OJEU procurement process, in this case a procedure known as the negotiated procedure.
17. An officer working group has developed the tender process and tender documentation and is currently carrying out detailed negotiations with a shortlist of three suitable bidders in order to ensure the effective delivery of the key strategic outcomes.
18. The OJEU tender process is necessarily prescriptive in terms of the evaluation of bids and the resulting selection of a preferred contractor as Delivery Partner. The officers carrying out the evaluation identify a preferred Delivery Partner through this process and would then recommend the appointment of that organisation to Cabinet.
19. Due to the need to maximise the initial ECO funding opportunity the chosen Delivery Partner would be expected to commence activity as soon as possible following appointment. Because the next meeting of Cabinet after the preferred contractor has been identified would not take place until the middle of November there could be a potential delay in deployment.
20. To minimise any such delay it is therefore proposed that following the completion of the tender evaluation process the officer working group will make a recommendation of a preferred Delivery Partner to the Director of People who will after consultation with the Cabinet Member for Housing and Sustainability to make the decision to appoint the preferred Delivery Partner and enter into the relevant Project Agreement. Cabinet are therefore requested to provide the relevant delegated authority for this purpose in order for the contract to be awarded in early November.

RESOURCE IMPLICATIONS

Capital/Revenue

21. ECO funding is provided by the energy companies to discharge obligations imposed upon them by central government and an estimated £ 1.3 billion annually is available nationally for this purpose.
22. The current Housing Revenue Account Capital Programme, approved by Cabinet on 5 February and Council on 13 February 2013, includes the provision of £21.494m capital funding to support the provision of external cladding and insulation to houses, walk-up blocks and tower blocks in the city as well as alternative heating and renewable energy sources from 2013-2018.
23. These resources will be available to support wider delivery of ECO and District Energy projects and associated works and fees as part of this partnership. In addition the HRA retains borrowing headroom within the business plan over this period which can be utilised for additional support if required. This funding will ensure a comprehensive treatment of respective properties to maximise the opportunities the new funding provides.

Property/Other

24. ECO funding combined with HRA capital funding will significantly improve the standard of the Council's housing stock, reduce fuel poverty and improve the health and well-being of tenants.

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

25. Section 1 of the Localism Act 2011 permits the Council to do anything that any other person or private body could do (the 'General Power of Competence'). The use of the power is subject to a number of pre and post commencement limitations, none of which are considered to apply in this case.

Other Legal Implications:

26. The ECO funding project will be delivered in accordance with Finance and Contract procedure Rules and any procurement and subsequent delivery of ECO funded projects will be subject to compliance with the requirements of the Equalities Act 2010, in particular the Public Sector Equality Duty and having regard to the need to reduce crime and disorder in accordance with S.17 of the Crime & Disorder Act 1998.
27. A Strategic Partnering Agreement allows for other local authorities to enter into the contract. The obligation lies with the ECO delivery partner to form a contract with the respective local authorities and to generate a programme of work in their areas. This means that the risk to Southampton City Council of this arrangement is minimal in this respect.
28. A Negotiated OJEU tender procedure is considered to be appropriate for this project which should be capable of delivering the appointment of a commercial partner in early November this year.

POLICY FRAMEWORK IMPLICATIONS

29. As mentioned in the main body of the report the procurement of a strategic partner to deliver energy measures satisfies a number of council policies and key objectives, which are included the provisions of the Southampton Connect Plan, and the Council's housing and property strategies.

KEY DECISION? Yes

WARDS/COMMUNITIES AFFECTED:	All
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SUPPORTING DOCUMENTATION

Appendices

1.	None
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Documents In Members' Rooms

1.	None
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Equality Impact Assessment

Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out.	No
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Other Background Documents

Equality Impact Assessment and Other Background documents available for inspection at:

Title of Background Paper(s)

Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)

1.	None	
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